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10 DOWNING STREET

11 December 1984

From the Private Secretary

GAS PRIVATISATION

The Prime Minister held a meeting today to discuss gas privatisation. Present were your Secretary of State, the Chancellor of the Exchequer, the Financial Secretary and Mr Redwood.

The Prime Minister asked your Secretary of State to report on progress since the last meeting in July towards the objectives of bringing private capital into BGC's retail operations and of floating off the upstream assets. Your Secretary of State said he had agreed with Sir Denis Rooke that BGC should put its retail operations on to a more commercial footing using a combination of joint venture and franchise arrangements. This would represent a substantive response to the 1980 report of the Monopolies and Mergers Commission on the showrooms.

The Secretary of State for Energy said he hoped to persuade BGC to float off its upstream assets, including Morecambe and Rough, with BGC retaining a minority interest. This would be very much easier if it were done with BGC's agreement, but it would require careful and patient negotiation. While the coal strike was on and the Sleipner issue was unresolved, his ability to negotiate such an outcome was weakened. He hoped that both obstacles would be removed early in the New Year. If an agreement were secured with BGC it would be possible to privatise both retail and upstream assets during the present Parliament.

In discussion, it was recognised that it would be premature to pursue the question of the upstream assets while the coal strike continued. Nevertheless, the time should be used for preparatory work, particularly on the approach to be followed should it be necessary to operate without BGC's agreement.

It was noted that the Secretary of State for Energy's concept did not envisage transfer of any part of the appliance installation and servicing to the private sector. The manpower engaged in these operations was very large and the scope for improved service to the public was substantial. The Secretary of State for Energy argued, however, that an attempt to privatise servicing operations

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would meet with very great opposition, particularly from the unions.

Summing up the discussion, the Prime Minister said BGC should be encouraged to press ahead with the development of its retail operations in conjunction with the private sector. While no attempt should be made to negotiate sale of the upstream assets while the coal strike was on, preparatory work should continue. The Secretary of State for Energy was invited to provide the Treasury with two papers in the New Year, the first on the implications of privatising BGC's servicing operations, and the second on the strategy for disposing of the upstream assets in the face of opposition from BGC. It was agreed that the Treasury would nominate a single official to receive and work on these papers.

I am copying this letter to David Peretz (HM Treasury) with the request that it is circulated only to the Financial Secretary's Office and to the person designated to work on this subject.

(Andrew Turnbull)

Michael Reidy, Esq.,
Department of Energy.

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